

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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SUBJECT: RECENT DEVELOPMENTS IN BANKING

REF: (A) 76 AMMAN 69, (B) AMMAN A-1 (NOTAL)

1. REGULATION OF COMMERCIAL BANKS--FOR TOR SIX MONTHS
ENDING JUNE 30, 1977, THERE WILL BE NO CEILINGS ON COMMERCIAL
BANK CREDIT EXPANSION. RESTRAINT ON SUCH CREDIT WILL
BE IMPOSED BY OTHER MEANS. LIQUIDITY/DEPOSIT MINIMUM RATIO,
WHICH HAD BEEN 30 0/0 IN 1976 HAS BEEN MOVED IN TWO
STEPS TO 35 0/0 . EXCEPTIONS TO THIS REQUIREMENT AND MAXIMUM
LOAN/DEPOSIT RATIO, WHICH REMAINS AT 70 0/0, MAY BE GRANTED
BY CENTRAL BANK FOR APPROVED "DEVELOPMENT" PROJECTS, (I.E.,
MINING, MANUFACTURING, AGRICULTURE , AND TOURISM). SUCH
"DEVELOPMENT" PROJECTS WILL ALSO HAVE TO BE FINANCECD BY
TERM LOANS RATHER THAN OVERDRAFTS TO QUALIFY FOR EXEMPTION
FROMM LIQUIDITY AND LOAN/DEPOSIT RATIC REQUIREMENTS.
BANKS IN OPERATION FOR LESS THAN ONE YEAR ARE NOT SUBJECT
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TO ABOVE REQUIREMENTS.

2. NEW BANKING LICENCES--LICENSES FOR FOUR NEW BANKS,
BRINGING OTTAL IN JORDAN TO 16, HAVE RECENTLY BEEN GRANTED:

A. JORDAN-KUWAITI BANK, CAPITALIZED AT 5 MILLION
JD, IS 60 0/0 JORDANIAN AND 40 0/0 KUWAITI OWNED. ALL CAPITAL

IS PRIVATE. SOME HALF MILLION JD OF CAPITALIZATION WAS REPORTEDLY CONTRIBUTED BY (KUWAITI) SHEIKH NASER SABAH AL-AHMED. THIS IS ONLY ONE OF FOUR NEW LICENSED BANKS WHICH HAS BEGUN OPERATION AS YET.

B. JORDAN-GULF BANK, SIMILARLY IS CAPTIALIZED AT 5 MILLION JD, ALL PRIVATE. 60 0/0 OWNERSHIP IS JORDANIAN, PRIMARILY CONTRIBUTED BY JORDANIANS WORKING IN GULF. REMAINDER IS PRIVATE GULF AND KUWAITI MONEY, WITH KUWAITI MONEY PREDEOMINANT.

C. PETRA BANK, CAPITALIZED AT 3 MILLION JD IS PURELY JORDANIAN IN OWNERSHIP. IT MAY TURN OUT TO BE "FAMILY BANK" AND FOR THAT REASON PERHPAS SHAKY. THOUGH CENTRAL BANK WOULD PREFER CONSOLIDATION OF SMALLER BANKS IN JORDAN, SUCH AS THIS NEWEST, GRANTING OF LICENSE IS CONSISTENT WITH CENTRAL BANK POLICY SET OUT IN REF A.

D. SYRIAN-JORDANIAN BANK, CAPITALIZED AT 2 MILLION JD HAS PRETENSIONS OF BECOMING IVESTMENT/DEVELOPMENT BANK RATHER THAN PURELY COMMERCIAL BANK. SARG IS TO CONTRIBUTE HALF OF CAPITAL, BUT JORDANIAN AUTHORITIES HAVE YET TO DECIDE HOW TO DIVIDE JORDANIAN CONTRIBUTION OF 1 MILLION JD BETWEEN PRIVATE AND PUBLIC SECTOR. THREE/EIGHTHS OF CAPITAL IS TO BE IN SYRIAN CURRENCY, ANOTHER THREE/EIGHTHS IN JORDANIAN DINARS AND REMAINDER IN UNSPECIFIED INTERNATIONAL RESERVE CURRENCY. HEADQUARTERS WILL BE IN AMMAN WITH BRANCH IN DAMASCUS, GENERAL MANAGER WILL BE SYRIAN. SOME REPORTS HAVE IT THAT SYRIAN SIDE INSISTER ON AMMAN HEADQUARTERS BECAUSE OF MORE LIBERAL BANKING ENVIRONMENT. BOARD OF DIRECTORS IS TO CONSIST OF 6 MEMBERS WITH TERMS OF FOUR YEARS. BOARD WILL CHOOSE PRESIDENT UNCLASSIFIED

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AND VICE-PRESIDENT FROM ITS OWN MEMBERSHIP FOR TERMS OF TWO YEARS EACH. GOVERNING LEGISLATION, YET TO BE WRITTEN, WILL BE SEPECIFICALLY DESIGNED FOR THIS INSTITUTION. THOUGH THERE IS SOME CRITICISM THAT JORDAN WAS ALREADY ADEQUATELY OR EVEN OVER-BANKED, APPROVAL OF OPERATIONS OF COMMERCIAL BANKS MENTIONED ABOVE ARE CLARELY WITHIN QUIDELINES PREVIOUSLY SET BY CENTRAL BANK. CENTRAL BANK OFFICIALS HOPE THAT NEW COMMERCIAL BANKS WILL BE AGGRESSIVE AND EFFICIENT. FINDING THAT ESTABLISHED BANKS HAVE LONGSTANDING RELATIONS WITH TRADITIONAL BANK CUSTOMERS, WHO DOMINATE TRADE AND COMMERCE, NEW BANKS WILL HAVE TO OFFER IMPROVED SERVICES AND MOVE INTO INDUSTRIAL (DEVELOPMENT) ACTIVITY. OR SO IT IS HOPED. ANTICIPATING CRITICISM OF POSSIBLE OVER-BANKING IN JORDAN, CENTRAL BANK OFFICIAL WRITING IN LOCAL PRESS EXPRESSED CONFIDENCE IN BUSINESS JUDGEMENT OF NEW LICENCES AND EXPECTATION THAT THEY WILL SEEK NEW OPPORTUNITIES IN LENDING THAT ESTABLISHED BANKS HAVE OVERLOOKED.

3. RELEASE OF WEST BANK DEPOSITS FROZEN SINCE 1967--
GOJ HAS DECIDED TO UNFREEZE REMAINDER OF DEPOSITS IN WEST BANK
BANK BRANCHES FORZEN SINCE 1967 WAR. AMOUNT OF SUCH
DEPOSITS REMAINING IS ESTIMATED AT ONLY ABOUT 1 MILLION
JD. TIMING OF DECISION ON DOUBT INFLUENCED TO SOME
EXTENT BY POLITICAL CONSIDERATION OF WEST BANK/JORDAN RELATTIONS.

4. TO FINANCE PRIVATE SECTOR HOUSING WILL INCREASE ITS
CAPITALIZATION FROM 12 TO 18 MILLION JD. INCREASED
CAPITALIZATION IS TO BE SUBSCRIBED BY PUBLIC AT LARGE.
SOME SUSPECT THAT INCRASED CAPITALIZATION IS NEEDED BECAUSE
BANK UNWISELY BOUCHED UP ITS MATURITIES,
IMPEDING PRESENT AND NEAR TERM CASH FLOW AND BECAUSE
OF OVERLENDING TO LUXURY HOUSING THAT IS COMING INTO
OVERSUPPLY ON MARKET. HOWEVER, INCREASE IN CAPITAL IS PUBLICLY
EXPLAINED AS NECESSARY FOR EXPENDING ACTIVITY
OF BANK. IN LINE WITH QUIET PROGRAM OF SLOWLY INCREASING JORDAN'S
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ADMINISTERED LENDING RETES TO MORE ACCURATELY
REFLECT MARKET DEMAND, LENDING RATE OF AGRICULTURAL CREDIT
CORPORATION IS EXPECTED TO BE RAISED SLIGHTLY IN NEAR FUTURE.
FINALLY, BANK EXPECTS TO PUBLISH REGULATIONS
GOVERNING COMMERCIAL BANK REPRESENTATIVE OFFICES
IN VERY NEAR FUTURE--THERE ARE PRESENTLY THREE OR FOUR
FOREIGN BANKS WHO ARE IN VARYING DEGRESS INTERESTED
IN SETTING UP REP OFFICES HERE.
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